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Dominion-Provincial Conference
(1945)



Submissions by the Government
of the
Province of Ontario



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on Reconstruction, 1945/46.*

Dominion-Provincial Conference

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(1945)

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Submissions by the Government

of the

Province of Ontario



ONTARIO

January, 1946

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Dominion-Provincial Conference (1945)

SUBMISSIONS BY THE GOVERNMENT OF THE PROVINCE OF ONTARIO

The main purpose of the Dominion-Provincial Conference (1945) is to place the Dominion and the provincial governments in the best possible position to use their combined powers for the most effective advancement of the welfare of the people of Canada and the strength of one national economy. In seeking to attain that objective, our constitutional background must be recognized, and the special considerations which greatly affected the form of constitution under which Canada became a nation must always be borne in mind.

In making its submissions to the Conference, the Government of the Province of Ontario proceeds upon the assumption that the future strength of Canada and the welfare of all its people will depend upon the measure of co-ordination and continuing co-operation which can be established between all governments in Canada and the agencies of those governments. While acknowledging that each provincial government owes its primary responsibility to the people of its own province, we fully recognize the dependence of the people of every province on the strength and vigour of the whole nation for their continuing welfare and prosperity. We are also convinced that the strength of our national structure very largely depends upon the strength, independence, and self-reliance with which each provincial government is able to undertake its own allotted tasks. These principles are stated at the outset so that it may be clearly understood that our proposals are made in the belief that they should be equally acceptable in every part of Canada and are in no instance put forward with the thought of giving any special advantage to those who live in the Province of Ontario. The ordinary constitutional relationship between the Dominion and provincial governments has been changed very greatly during the war as the result of the wide powers assumed by the Dominion Government under the War Measures Act and other emergency legislation. In many fields of exclusive provincial jurisdiction, the Dominion Government has taken over full authority. Under the Emergency Transitional Powers Act, the Dominion Government continues to occupy extensive areas of provincial jurisdiction. That being so, the readjustment of legislative authority as between the Dominion and provincial governments will be a progressive and continuing process, and obviously will not be completed in one stage.

[The first and most urgent question is the allocation of taxing powers which must follow the termination of the tax agreements of 1942. As the ability of any government to undertake its responsibilities depends upon its power to obtain the revenue required to carry out its responsibilities, the subject of taxing powers as affected by the 1942 agreements will be dealt with first.

On March 27th, 1942, the Government of Ontario entered into an agreement with the Government of Canada which provided that, for the duration of hostilities and the next full fiscal year following the year in which hostilities ceased, the Provincial Government would forego its right to impose personal and corporation income taxes in return for fixed annual payments. Similar agreements were entered into between the Government of Canada and the government of each of the other provinces. Hostilities having been declared to have come to an end on September 6th, 1945, the agreement between the Government of Canada and the Province of Ontario will terminate automatically on March 31st, 1947. Quite apart from other details of taxation and other agreements which may be reached at this Conference, it is essential for the orderly conduct of the business of government, that the Dominion and provincial governments decide at the earliest possible date what will happen in these two extremely important fields of taxation after the termination of the existing agreements.

Along with other proposals placed before the Conference last August, the Dominion Government proposes that, under a new agreement, the provincial governments continue to remain out of these fields of taxation in return for certain annual payments on a fixed basis. As this involves a fundamental principle, in no way related to the present adequacy or inadequacy of the payments proposed, it is desirable to examine what effect the acceptance of this proposal would have upon the position of the provincial governments and legislatures.

Under Section 92 of the British North America Act, the Provincial Governments were given the right to impose direct taxes for the purpose of carrying out the legislative and administrative responsibilities conferred upon them. Under Section 91, the Dominion Government was given the power to impose any form of taxation for the purpose of carrying out its legislative and administrative duties.

No serious problem arose as a result of this possibility of conflict in taxation until 1917. While it is contended that there is no limitation upon the right of the Dominion Government to impose any form of direct taxation, succeeding Dominion Governments up to that time had confined their taxation to the indirect field, and when it was considered necessary to impose a personal income tax in 1917 because of the demands of war financing, the then Minister of Finance,

Sir Thomas White, expressed his regret that it should have become necessary to enter this field, and the expectation at that time clearly was that the Dominion Government would withdraw from it after the war, leaving the field of direct taxation once again, exclusively, to the provinces, as it had been since 1867.

There was very good reason for leaving this field open to the provincial governments. They had been given wide sovereign responsibility in many of the most important fields of legislation affecting the prosperity and welfare of the people of Canada. After all, there is only one group of taxpayers in Canada. They are the combined total of the people who live in the nine provinces, together with a small number of people who live in the northern part of Canada, outside of the organized provincial areas. If the provincial governments were to assume their full responsibility for health, public welfare, education, agriculture, highway construction, lands, forests, mines, labour relations, municipal affairs, and so on, then obviously it would be necessary for them to have the power to impose the taxes necessary to raise the money for the purpose of carrying out those responsibilities, under the supervision and subject to the approval of the provincial legislatures. That principle was accepted without question as a basic necessity for the effective functioning of our Federal System.

When it was proposed in 1942 that the provinces should abandon their two most important sources of direct taxation, this was done with the assurance that it was to be for the duration of the war emergency and only for that period. There were obvious reasons why the provinces could do this for the duration of the war and for the next fiscal year thereafter, which did not apply in time of peace. The provincial governments had stopped all avoidable construction and made it clear that they would curtail development expenditure as much as possible. Under those circumstances, their budgets were established at an approximately fixed level, and annual payments could be computed to provide the necessary revenue within the fixed limits which the provincial governments had themselves determined.

But a very different situation arises with the end of the war. As supplies and manpower become available, it is not only possible but absolutely necessary for the provincial governments to increase their expenditures very greatly if they are to proceed with development work which is essential for the orderly expansion of production and extended use of all our resources. The amount of money spent in any year on such activity must be measured by the judgment of the members of the provincial legislatures, or they cease to be independent legislative bodies. It is axiomatic that the power to tax is the power to govern. It is for that very reason that there is a standing rule in every parliament and legislature within the British Commonwealth

that private members cannot bring in money bills, or present resolutions which would have the effect of increasing the expenditure approved by the government.

If the provincial governments, and in turn the provincial legislatures, were to abandon their most important sources of direct taxation in return for an annual payment on a fixed basis, they would place themselves in a legislative strait-jacket from which they could only escape by abandoning still further powers in return for added payments at some date in the future.

There is much more to be decided at this Conference than the adequacy of the payments proposed by the Dominion Government to meet the financial needs of the provinces for the immediate future. In Ontario, the annual expenditure by the Government on public services of every kind has increased steadily throughout the years. The prosperity of our people has increased also. A large part of the expenditures goes directly to the advancement of production and results in increases in employment. That process will continue. The more highly organized and the more productive any group of people become, the more public services they require to support their daily needs, to increase their opportunities for trade and commerce and generally to gain access to undeveloped resources. If the provincial governments placed themselves in such a position that they were only able to expand their activity with the approval of the Dominion Government, they would become little more than local administrative commissions of the Dominion Government, and the provincial legislatures would cease to possess anything but the form of administrative responsibility.

No matter what the intention may be, the almost inevitable result which would follow the acceptance of such an arrangement would be the ultimate abandonment of the Federal System in favour of a Unitary System of government in Canada. The steady whittling down of provincial rights of taxation would produce a limitation of legislative independence which could only have the effect of rapidly increasing the centralized power of the Dominion Government.

Distinctive Attributes of Federal System

The question to be decided is not merely whether the provincial governments are prepared to abandon their most important taxing powers, with the certainty that it would become necessary for them to abandon still more powers as time goes on—the fundamental question to be determined is whether or not the time has come to abandon the Federal System, in fact if not in name, in favour of a centralized Unitary System of government. It is well therefore to review the distinctive attributes of the true Federal System which Canada

adopted in 1867, and to consider the relative advantages of the Federal and Unitary Systems, recognizing the universal desire that Canada face the future with that form of democratic government best suited to its needs and special problems.

Federal government in Canada was established to further the same broad purposes which characterize federalism elsewhere in the world, especially in democratic countries such as the United States and Australia. Profound changes in Canada's national stature and economic position in the world must still be assessed with due regard to those objectives.

The primary and simple purpose of the Fathers of Confederation was to conserve the autonomy of the provinces in local matters, and at the same time create a national government which would promote the common interests of all provinces and be able to deal with such public business as was of a distinctly national character. Here, as elsewhere, democratic federalism was designed to embrace many in one and one in many. It was not intended, however, to merge local characteristics in one uniform pattern. This simple purpose was precisely stated in the judgment of Lord Watson in *Liquidators of the Maritime Bank vs. Receiver-General of New Brunswick* in the following words:

"The object of the Act was neither to weld the provinces into one, nor to subordinate provincial governments to a central authority, but to create a Federal Government in which they should all be represented, entrusted with the exclusive administration of affairs in which they had a common interest, each province retaining its independence and autonomy."

It must be remembered also that there were special considerations in the minds of those who framed the British North America Act which must not be disregarded in reaching a decision to-day, no matter how much the general circumstances throughout Canada have changed. This was stated very clearly as recently as 1932 in the *Aeronautics Case* in the judgment of Lord Sankey as follows:

"Inasmuch as the Act embodies a compromise under which the original provinces agreed to federate, it is important to keep in mind that the preservation of the rights of minorities was a condition on which such minorities entered in the federation, and the foundation upon which the whole structure was subsequently erected. The process of interpretation as the years go on ought not to be allowed to dim or to whittle down the provisions of the original contract upon which the federation was founded, nor is it legitimate that any judicial construction of the provisions of Sections

91 and 92 should impose a new and different contract upon the federating bodies."

Those special considerations are still present to-day. Any attempt to disregard them could only result in failure to reach that measure of agreement which is desired by every government represented at this Conference. Federation was made possible in Canada only by the assurance that within its range of legislative competence each provincial legislature would be fully responsible for policy and answerable to its own electorate for the preservation of certain traditional rights and privileges which those provinces were not willing to submit to the overriding authority of a government and parliament in which their own representation would in each instance constitute a minority. The division of legislative competence was made rigid in many fields in order to secure traditional rights from the possibility of usurpation of power by any Dominion Government and parliament no matter what its political complexion might be.

Besides those traditional loyalties, which were a potent factor in determining the particular form of federation adopted by Canada, the architects of Canadian union chose federalism as the form of government most likely to insure efficient administration over the large and sprawling territories which spread from the Atlantic to the Pacific, north of the United States. It is also important to-day to remember that the government leaders from Upper and Lower Canada had practical experience in the preceding twenty-five years in the operation of a legislative union, and in the light of that experience they were the strongest advocates of the administrative superiority of the federal system. They looked upon it as a system which would insure the most intimate relationship between the government and the people and, hence, would be most likely to escape the ills of a centralized and unwieldy bureaucracy. It is significant that they gave to the provincial governments jurisdiction over education, municipal institutions, the development of natural resources, and property and civil rights, thus enabling the provincial governments to remain responsive to the divers notions, needs and traditions of the people living within their provincial boundaries. Provincial government was to remain a constitutional shield for local democracy in the provincial legislatures and the municipal councils.

This statement of the underlying considerations which led to the adoption of our own particular form of federalism is not intended to convey the suggestion that the British North America Act is beyond all improvement or that we should be hampered in our national development by an outmoded constitution if we became convinced that such were the case. The wisdom of the Fathers of Confederation has been amply demonstrated throughout the past seventy-nine years, but, even so, it is only proper for us to ask

ourselves if our constitution has outlived its usefulness and the time has come for us to turn to some other form of constitutional government. Those who remain faithful to old dreams sometimes find that only the dream remains. If the evidence were clear that some other form of democratic government would be better suited to the needs and aspirations of the Canada of to-morrow, then there would be no reason why the consideration of such a fundamental change should be delayed.

Problem of Diverse Conditions

If we were confronted with exactly the same problem as faced the Fathers of Confederation—the writing of a national charter suited to Canada's needs—what form of government would be chosen? Surely we would come to the conclusion that nothing has happened to alter the logic of a federal structure in a state of such area and diversity, although the pace and character of modern economic and social developments, especially the consolidation of economic power, do call for adjustments which will be referred to later. Although they are not economic islands, separate from one another, it still remains true that the provinces constitute, and should continue to constitute, like the states of the American Union in the words of Justice Holmes, "insulated chambers" for legislative experiment, wherein different ideas and attitudes have free scope within the competence of the provincial legislatures.

The provincial governments must cope with the problems of diverse soil, topography, climate, and human sentiment. Indeed, owing to the remarkable advances in scientific technique since 1867, the responsibility of provincial governments in directing the development of natural resources has increased enormously, and in the future will increase still further. The natural resources throughout Canada are so heterogeneous, and the modes of development in different provinces vary so much that administrative supervision in limited areas is essential for their most effective utilization.

What may be prescribed by public policy for the best use of coal and minerals in Nova Scotia may not be equally wise in Alberta. Conservation will necessarily have a different meaning in British Columbia from what it has in Saskatchewan. The problems connected with the production of electric power in Manitoba are very different from those of Quebec. Ontario has large and divers resources in its forests, base metals, precious metals, its lakes, fertile lands and secondary industries. In every province more co-ordinated direction of such resources will be needed in the future, and only provincial administration can effectively provide it because of proximity and immediate interest. In this field, it would appear that there is convincing evidence that the obligations and authority of provincial governments must expand rather than contract.

It is an inescapable fact that the development of all natural resources is fundamental to the economic advancement and improved standard of life for the people in any area. It is also true that the economic life of a province is at the mercy of powerful international forces against which it can never achieve insulation. Similarly, it is subject to the profound influence on its affairs of the tariff and monetary policies of the Dominion Government. Nevertheless, in a continental state, such as Canada, federalism provides the most flexible administrative system.

None of the provinces is so densely populated that the focusing of public attention upon the affairs of its own government is too seriously hampered. While the areas covered by some of the provinces are very great, the activities of their governments are reasonably close to the people, and for that reason subject to more constant and direct supervision. The legislative ingenuity of a single province is tested in experiment to the advantage of all, without the dangerous consequences which might follow its application to the business and life of the whole nation. Administration can also be readily adjusted to special local circumstances. The leading Canadian provinces are substantial regions in themselves whose needs in many matters of development can only be determined by local thought.

Ontario, with its 412,000 square miles, is considerably larger than Texas, the largest state in the United States, with 265,000 square miles, or California, the second largest, with 158,000. The development of the resources of this huge territory can best be directed by those with personal knowledge of its own problems. Long ago, Lord Bryce pointed out that federalism may, to some extent, diminish the collective force of a nation, but it diminishes also the risks to which size and internal diversities expose it, especially the risks of a centralized administration of resources.

No single national opinion is possible in a continental state on the details of local development, but the existence of nine provinces operating as active legislative entities stimulates the free play of opinion on policy, fosters a friendly rivalry in political ideas, and by protecting diversity gives greater vitality to the whole democracy. At the same time provincial governments in Canada can relieve the strain on the national government and permit it to deal more promptly and effectively with matters of national and international concern. It also reduces the strain on the administrative departments of the national government and prevents them from becoming top heavy, inflexible, and unwieldy as a result of too great an accumulation of administrative responsibilities.

It is a simple but well established truth that the closer democratic government is to the people, the more efficient it becomes and the more responsive it remains to the changing needs of the people. A leading

constitutional authority in the United States has aptly remarked that, "in the expansion of governmental services, there is a line beyond which centralized administration cannot go without falling by its own weight. A federal division of powers, in accordance with American tradition, may aid in the avoidance of a too highly centralized administration and offer an opportunity for political and economic experimentation." It is true that in a country with the relatively small population of Canada, the central administration would be less complex and cumbersome than in the United States, but it would be no less exposed to the same difficulties in preserving an intimate contact with the outlying areas. Territorial magnitude alone would impose a very serious burden upon a centralized administrative system.

Canada experiences certain problems by virtue of three facts implicit in our federation. Some of these problems are of growing complexity. They are:

1. The greater fiscal power of the national government through its general taxing power and its control over customs and excise and monetary matters.

2. The inability of the provinces to deal separately with such national problems as general unemployment and other matters which are reflected upon the provinces by reason of Dominion legislative action. The facts stated in this paragraph and preceding paragraph are sometimes used to challenge the survival of the Federal System in Canada.

3. The marked disparities between the provinces in area, resources and population, despite their equal legal status, which obviously complicate the operation of our federation.

These were among the major considerations in the minds of the members of the Royal Commission which inquired into Dominion-Provincial relations prior to the outbreak of war. But none of these presents any insuperable difficulty under a Federal System in which there is effective and continuing co-operation between the Dominion and provincial governments. Assuming that there is a common desire to work in the best interests of all of Canada, each of these questions can be settled simply by agreement or by amendment to the basic constitution. In these fields the closest collaboration between the Dominion and provincial governments is imperative. The Federal System can meet all these problems by becoming in fact as well as in name a fully co-operative partnership. The needs of those provinces with taxing power below that required to maintain services at a proper level must be assisted by the whole partnership. These problems raise no argument against the effectiveness of the Federal System. They are a challenge to the elected representatives of the

ten legislative bodies in Canada to use their combined power, under a plan of intimate and flexible co-operation, which will make full use of the administrative advantages of decentralization and the economic advantages of centralization by consent to such extent as becomes necessary from time to time.

Even if it were possible to ignore completely all the reasons which led to the adoption of a Federal System in Canada in 1867, there would still be one compelling reason why we should adopt the Federal System at this particular time, if it were our task to start with a blank sheet and draft a completely new constitution. Those reasons are similar to the reasons which led to the adoption of the Federal System in the United States more than a hundred and fifty years ago, but now they are supported by new and overwhelming arguments in favour of the acceptance of this form of government. When the constitution of the United States was drafted, its authors were deeply concerned with the possibility that no matter what form of democracy they might adopt it could be destroyed as other democracies had been destroyed by the usurpation of power within the framework of a democratic constitution. Jefferson and the other leaders of that day constantly emphasized their belief that decentralization of the control of local and personal rights, under the administrative jurisdiction of the state governments, was the surest way to make certain of the continuance of the form of democracy they sought to create.

Later, in 1860, when the constitution of the United States was under such a severe test, Abraham Lincoln refused to accept the arguments of those who called for greater centralization, and asserted his conviction in these words:

“The maintenance inviolate of the rights of the States, and especially the right of each State to order and control its own domestic institutions, according to its own judgment exclusively, is essential to the balance of powers on which the perfection and endurance of our political fabric depend.”

Then to come to more recent years we find that great leader of democratic thought, Franklin Roosevelt, emphasizing the dangers of too great centralization in the following words:

“To bring about government by oligarchy, masquerading as democracy, it is fundamentally essential that practically all authority and control be centralized in one Federal Government. . . . The individual sovereignty of our states must first be destroyed.”

These authorities have been quoted because the constitution of the United States has been more thoroughly studied and has been placed under heavier strain than that of any other existing federal

government in the world. The arguments apply with equal force in Canada. In fact they apply with greater force than ever before. We have seen, almost before our eyes, democracy after democracy destroyed in many countries by too great centralization of power.

Without suggesting any present likelihood of such a course being followed in Canada, the dangers exposed by such extreme cases are serious enough to guard against them, even if only as a remote possibility at some future date. The effective control by the provinces of the budgetary as well as the legal requirements of the administration of local affairs is the surest safeguard against the loss of those civil and property rights which lie at the root of our system of democracy.

Arguments for greater centralization, or for a Unitary System of government, usually are put forward in the name of efficiency. But even if efficiency were so achieved, it might be bought at too high a price. In almost every case where the Federal System has been placed under dominating central control, or where the Federal System has given way to a Unitary Government, no matter under what disguise, despotism in some form has followed sooner or later, if for no other reason than the difficulty of attempting to maintain a true democratic system while trying to operate centralized government within the original federal structure.

But experience does not prove that greater centralization does, in fact, increase efficiency. On the contrary, there is ample evidence from practical experience that the closer government is to the people the more efficient it is, and the more that local matters are dealt with locally, the more speedily and efficiently they can be dealt with.

Reasons for Return of Tax Powers to Provinces

There is a very important reason, moreover, why personal income and corporation tax powers should be returned to the provinces. When the 1942 agreement was being drafted, the possibility of that agreement leading to a future surrender of taxing powers was fully discussed, and for that reason the preamble of the Ontario agreement contained the following words:

“Whereas the Province shall not, by agreeing as herein-after provided to desist from imposing certain taxes during the term of this agreement, be deemed to have surrendered, abandoned or given over to the Dominion any of the powers, rights, privileges or authority vested in the Province under the provisions of the British North America Act, 1867, or any subsequent Act of the Parliament of the United Kingdom, or otherwise to have impaired any of such powers, rights, privileges or authority.”

The intention of those who entered into that agreement could hardly be stated in more explicit terms. But the agreement went still further. The Dominion Government not only acknowledged in this preamble that the provinces were not to be deemed to be surrendering any of their ordinary taxing powers, but it went further and gave a positive undertaking to permit the Province of Ontario to re-enter the field of personal income and corporation taxes. This undertaking is contained in Section 20 (1) of the agreement between the Dominion and the Province of Ontario. It reads as follows:

“The Dominion shall have the sole right to levy taxes on personal and corporation incomes of the calendar year ending on the 31st day of December nearest to the date of the termination of this agreement, and with respect to personal and corporation incomes in the following calendar year undertakes to reduce its rates of taxes by such an amount as will enable the Province again to use the income tax and corporation tax fields, and in particular the Dominion undertakes to reduce its rate of tax on corporation incomes by at least ten per centum of such incomes.”

This undertaking should be fulfilled for several reasons. First is the fact that it is regarded as essential, if the provincial governments are to assume their full responsibility, as has been stated already. Second, and equally important, is the fact that it would seriously affect the confidence which could be placed in any future agreements if so positive an undertaking were not carried out in accordance with its terms.

There has been some suggestion in public comments upon this question that the situation has so changed since March, 1942, as to make what appeared quite possible then impractical to-day. Such is not the case. It should be recalled that in March, 1942, the military prospects of the United Nations were at almost their lowest ebb. German forces were on the offensive in North Africa. They had also extended their forward lines far into Russia. The Japanese were sweeping through Asia. British naval strength was at its most precarious point of the whole war. In order to assist and encourage the Government and Parliament of Canada to wage total war against the Axis powers, the Provinces agreed temporarily to suspend the collection of revenue from certain taxes. The emergency has now ended. We have achieved overwhelming victory in a shorter period than we had reason at that time to expect. The Dominion is in a much better position to return to the provinces their taxing powers than was anticipated in 1942 when the agreements were made.

We do not question that the proposals of the Dominion Government have been put forward in the belief that they would provide a remedy for the existing defects and maladjustments in the Canadian

economy, but it is evident after reading the printed submissions handed to us by the Dominion Government, the later correspondence between officials of the various governments, and the reports of the deliberations of the Dominion-Provincial Economic Committee, that many of the proposals were advanced without sufficient information as to how they were to be implemented. Solutions to many extremely difficult problems were advanced with what now appears to be too easy an assurance of their success. It is, of course, recognized that the proposals were stated to be no more than a basis of discussion, but, since those proposals were put forward, different members of the Dominion Cabinet have made unqualified public statements that the Dominion Government would do certain things which could only be done if the proposals were accepted without change.

For that reason, it is necessary to examine the proposals as they stand, and, in doing so, it would obviously be unwise to gloss over difficulties which have not yet been satisfactorily solved by any nation, and to assume too readily that they can be banished by the suggested process of re-arranging the distribution of taxes and administrative functions between the federal, provincial and municipal governments.

It is unlikely that any one will deny that our Federal System needs readjustment. We must organize our combined system of government in such a way that it can best prevent a recurrence of the heartbreaking unemployment and distress of the nineteen thirties and will most effectively deal with the economic and social consequences of six years of devastating war. But those experiences must make us doubly sure that the remedies we apply are actually going to be capable of solving the problems we face. Unemployment, distress, poverty and insecurity are not a special affliction of the Federal System of Government. The terrible consequences of the depression of the nineteen thirties were felt with even greater severity in many countries where the people had concentrated vast powers in the hands of their central governments. There is no reason to assume, therefore, as something already proved, that we can tackle the problems we face more efficiently under centralized financial and administrative powers in the hands of the Dominion Government.

Impressive Gains in Living Standards Under Provincial Direction

The Canadian provinces have gone through trying times, but, in remembering events of which we must do all we can to prevent a recurrence, we should also remember the impressive gains that have been made in living standards, in the development of natural resources, in the improved and more extensive use of farm lands, and the expansion of educational facilities and social services. These

services have advanced greatly under strong provincial and municipal governments. In Ontario, we are proud of the high standard of technical training and the productive skills displayed during the war years by three-quarters of a million of industrial workers. They work under conditions which are constantly being improved by provincial laws. We may point to one of the largest and most efficient hydro-electric developments in the world, which has advanced to this position with the direction and financial assistance of the Provincial Government. We may also point with some measure of satisfaction to the present position of the Provincially-owned and operated Temiskaming and Northern Ontario Railway which has played an important part in the development of the northern section of our Province. These, and other activities undertaken and sponsored by the Ontario Government, such as the construction of 57,000 miles of surfaced roads, have all had their share in increasing the productive capacity and the economic strength of Ontario, and in turn of Canada. A similar story can be told in every other province. It was from this provincial background, largely created by the provincial governments, that the nation was able to mobilize its resources so quickly for war and to establish a record of production and achievement of which every Canadian can feel justly proud.

Not only has our national success been largely due to the past efforts of various departments of provincial governments, but those departments have greatly increased their experience under the added pressure of the war years. No convincing argument has been presented to support the contention that the Dominion Government could deal more efficiently with these services than can existing departments of the governments which have been dealing with them for many years. On the contrary, it seems only too evident that increased centralization would, in a large degree, destroy that measure of flexibility which is so necessary in adapting public services to changing local needs. In a country of such vast distances, with its racial, political, economic, and geographic factors, it seems evident that the greatest measure of efficiency will be achieved by the highest possible measure of decentralization under as great a measure of uniformity of policy and practice as can be attained by consultation, co-operation and agreement. Five years ago, in November, 1940, Dr. H. A. Innis, the head of the Department of Political Economy in the University of Toronto, made the following statement:

“The civil services in the provinces concerned with the social services have improved beyond recognition since the beginning of the depression and further improvement will take the line of further co-ordination of administration of the social services. It is probable that the provinces and the municipalities have shown greater capacity for administrative improvement than the Federal Government. Local

administration is immediately concerned with local problems, and burdens of taxation have contributed powerfully to efficiency in an exceedingly difficult administrative problem.”¹

In our opinion these comments apply with even greater force to-day because, in the very nature of their heavy war responsibilities, the departments of the Dominion Government have had less opportunity than ever to keep in touch with local conditions throughout the country. For that very reason, the tendency should be to rely more and more upon the provincial departments, with their long years of training and experience in those fields of governmental responsibility, and remove from the Dominion Government such local affairs as have come under their administrative responsibility because of the emergency created by the war.

Effects of Dominion Proposals on Ontario's Budget

The Dominion Government proposes that the provincial governments should enter into an agreement under which they would forego the imposition of personal income taxes, corporation taxes and succession duties, leaving the Dominion Government the full and exclusive access to these revenue sources. The general effect of abandoning the first two of these forms of direct taxation has already been discussed. The effect of the acceptance of this proposal will now be discussed in relation to the compensating payments suggested by the Dominion Government. For the surrender of these three most flexible taxes and for the statutory subsidies now provided, the Dominion Government offers to guarantee to the Government of Ontario a minimum annual payment of \$45,500,000 and to make certain grants-in-aid for social services, including health insurance and old age assistance, conditional upon the Province increasing expenditures on those services. In examining the effect of these proposals it is necessary to consider their result after full implementation of the health proposals, although it is stated that the latter are to be introduced gradually. Only in this way can the full effect of the proposals be understood. Applied to Ontario's budget for the fiscal year 1945-46 and assuming that the general subsidy provided by these proposals is based upon a gross national product of \$10,730,000,000, the subsidy from the Dominion Government to the Province of Ontario would be approximately \$61,000,000. Upon the basis of the 1945-46 budget, the result of this would be a \$15,000,000 deficit for the Province of Ontario. If the gross national product were reduced from the wartime high to a point where the minimum subsidy were to be paid, then the Provincial deficit upon the basis of our budget for the current year would be \$30,000,000. It will be seen therefore that,

¹*Canadian Journal of Economics and Political Science*, Vol. 6, November, 1940, p. 568.

so far as the Province of Ontario is concerned, the proposed financial arrangements do not even meet the wartime requirements of our budget, to which must be added the cost of the Dominion proposals relating to health and welfare.

The term "wartime requirements" is used because during the war the construction of new highways and public works and other provincial developments have been restricted to the very minimum. It must be remembered that these expenditures were at a very low level in the basic year used for the purpose of arriving at the figures in the Dominion Government proposal. If normal expenditures were undertaken by Ontario, the above deficit would be further increased by at least \$12,000,000.

Now that we are approaching more normal times, heavy additional expenditures for these purposes must be made and the result of the acceptance of the Dominion Government proposals would be a very heavy deficit. The additional money required to meet this deficit could only be raised by taxes in a field which would have been very severely limited by the agreement of the Province to vacate the fields of personal income tax, corporation tax, and succession duties, and to forego statutory subsidies.

The expansion of educational and other facilities, which have been curtailed by the demands of war, would also have to come from that limited remaining field of taxation.

It is true that the payment of a minimum subsidy of \$45,500,000 for the relinquishing of those sources of taxation which brought in two-fifths of the total Provincial revenue in 1940-41, seems to be a very substantial sum in itself. But it only represents approximately the amount we received in 1940-41 from these sources and the Dominion statutory subsidy. The amount is much less than we would have received in subsequent years based upon the same rates as applied in 1940 and 1941.

At Confederation, the provinces surrendered their rights to impose customs and excise duties, as well as other forms of indirect taxation in return for subsidies which ranged from nearly 50% of the provincial budgets of Ontario and Quebec to 92% of the provincial budget of New Brunswick. To-day those statutory subsidies, supplemented though they have been by automatic increases and subsequent amendments to the original agreement, represent only a small fraction of provincial revenue. In the Province of Ontario, for instance, the statutory subsidies amount to less than 3% of the Government's revenue. There is no reason to assume that the situation regarding the present Dominion proposals would be any different in the long-term result than has been the case with those subsidies agreed upon at Confederation. Even if the amount were adequate

to-day to meet provincial requirements, it is not only possible but almost certain, that we would run into further difficulties in a comparatively short time. We recognize that the subsidy increases in accordance with the gross national product, but there is no allowance for increased production in any one province based upon its own efforts. There is also the possibility of inflationary prices; but lessened private employment and a resultant lower national product would leave the provinces with a static revenue to pay higher prices and wages. The difference is, that unlike our position after Confederation, we would have no important fields of taxation to which the provincial governments could turn.

There is another very important weakness in the financial proposals of the Dominion Government. On page 8 of the printed "Proposals of the Government of Canada" we read this statement:

"The modern governmental budget must be the balance wheel of the economy; its very size to-day is such that if it were allowed to fluctuate up and down *with* the rest of the economy instead of deliberately *counter* to the business swings it would so exaggerate booms and depressions as to be disastrous."

Nevertheless that is the very result which the acceptance of the Dominion Government's financial proposals would produce on provincial budgets, for the Dominion proposes to pay the provinces a subsidy which fluctuates in direct relation with the business cycle. The Federal Government would encourage the provincial and municipal governments to initiate and expand public works projects in depression, with the Federal Government contributing twenty per cent of the cost and the provinces and the municipalities bearing the lion's share of eighty per cent. This would require loan financing by all governments, but unlike the Dominion Government, the provinces and their municipalities would not have the flexible tax sources and buoyant revenues, even in periods of prosperity, to retire the debt they had created in depression by undertaking unemployment relief projects. This is particularly true of the Province of Ontario where the Dominion's proposals do not permit a balanced budget, let alone retirement of provincial debt. Failure to reduce debt when coupled with the provinces' loss of their progressive taxes would have a damaging effect on provincial credit.

The Dominion Government proposes that the provinces finance their share of the cost of health insurance by "a registration fee to be paid by or on behalf of every person, who has attained his sixteenth birthday and whose normal place of residence is in the province or area where benefits are provided. . . ."¹ But any one who has had experience with the collection of a poll tax will understand the

¹*Proposals of the Government of Canada*, p. 32.

difficulty of collecting a registration fee which is not related to earning capacity, or to whether the registrant is employed, an old age pensioner, or a student without personal earning power.

The Dominion Minister of Health and Welfare, as well as certain Dominion officials, have also stated that the Dominion Government intends to finance its share of the cost of health insurance or old age pensions by a Social Security Tax levied on all incomes, without exemption. While the amount to be levied in this way was not definitely stated, nor was this special tax in fact mentioned in the printed "Proposals", the figure which has been mentioned in discussion is five per cent. This would be in addition to present income taxes and the registration fee or poll tax to be levied by the provinces. This would mean that if the provinces relinquished their personal income and corporation taxes and succession duties, the tax field left to them would be further crowded and confused by the Dominion Government introducing its special income levy. Moreover, it should be remembered that the remaining limited tax field left to the provinces includes revenue from the sale of alcoholic beverages and the gasoline tax, the revenue from both of which may decline by reason of factors over which the provinces exercise no control.

The subsidies the Dominion Government proposes to pay the provinces for surrendering their progressive direct taxes increase in accordance with gross national product per capita, but the provincial governments would not be able to keep informed regarding the numerous adjustments and changing estimates which are used in compiling this figure. Having regard to Ontario's increasing industrial and other production, it is certain that the revenue from personal income and corporation taxes and succession duties will increase more rapidly than the increase in the suggested subsidy payment to the Province based on gross national product per capita as estimated by the Dominion Government. This is so for two reasons:

(1) Personal income tax and succession duty rates are progressive. As income and estate values increase, they become subject to higher rates of tax and the revenues therefrom tend to rise more rapidly.

(2) In the past, the profits of corporations have risen in greater ratio than their gross production.

The Dominion Government proposes that we should enter into a temporary agreement for three years so that the effect of such arrangements could be explored. Past experience teaches that such temporary agreements have a habit of becoming permanent. Moreover it might become extremely difficult, if not impossible, to restore the position of the provinces after a three-year period had elapsed if unsatisfactory arrangements were made now. Meanwhile the

provincial technical organization would have disintegrated to a considerable extent. We are in the immediate transition stage and insofar as it is humanly possible the agreements made now should be agreements which will be workable over a long time. The Ontario Government is reluctant to enter into any agreement for a limited term, which would not appear to be satisfactory for the longer term.

Summary of Ontario's Objections

To summarize our objections to the Dominion's proposals:

1. The Ontario Government cannot accept the proposition that a concentration of financial and administrative power under the Dominion Government provides a satisfactory solution to Canadian economic and social problems. Countries with unitary forms of government have suffered at least as badly in depression as countries with the Federal System.

2. Provincial fiscal autonomy can only be preserved by each provincial government having power to impose its own taxes and to raise such sums of money as it deems to be necessary for the efficient carrying out of its administrative functions.

3. Each province should be left in a position to increase its tax revenue by use of flexible and productive revenue sources without recourse to appeals to the Dominion Government.

4. There should be alternative sources of revenue available to the provinces should alcoholic beverage profits and gasoline tax revenue decline by reason of factors outside the control of the provincial governments.

5. Financial stringency under the Dominion proposals would exert pressure on the provinces to resort more extensively to consumer taxes which have been generally regarded as nuisance taxes. This would not only increase tax collection costs but tend to restrict the flow of trade by establishing interprovincial tax barriers.

6. The payment of large unconditional subsidies to the provinces violates the principle that a government which is autonomous within its assigned jurisdiction should be charged with the responsibility of raising the money which it spends, subject to the approval of the legislative body.

7. The Dominion Government's proposed subsidies for the relinquishment of provincial tax sources are based on an index of gross national product which involves certain arbitrary adjustments and estimates that might be difficult for the provinces to check.

8. The Dominion's subsidies are inadequate. When the cost of the proposed health services is added to the Ontario Government's

curtailed 1945-46 budget, the result is a deficit of \$15 million. Normal expenditures on highways, developmental services and education would increase this deficit by a very large sum.

9. The Dominion subsidy to Ontario based on gross national product per capita will not rise as rapidly as the Province's revenue from direct taxes owing to the effect of progressive tax rates.

10. Decentralization of services provides the best assurance that the flexibility, vigour and efficiency of public administration will be preserved.

11. A short-term agreement is proposed, but continuation of the centralized power to levy personal income and corporation taxes and succession duties for another three years would operate against a reversion to provincial taxes in these fields. The bargaining power of the provinces in the matter of the periodic sale of their tax powers is not constant. It would become weaker with the passing of time. As the method of centralized levying of taxes took deep root, it would become difficult for the provinces to resist the pressure of the Dominion to accept whatever terms were offered. This would be especially marked if the sale of the taxes coincided with a time of rising unemployment and economic distress.

For the reasons stated above, the Ontario Government finds itself unable to approve of the proposal of the Dominion Government that it surrender its progressive tax powers. The Ontario Government is not prepared to place the economy of the Province of Ontario in such a position that the government of that Province would be compelled either to impose uneconomical and vexatious forms of taxation or to be continually appealing to the Government at Ottawa for further financial aid.

PROPOSALS OF THE GOVERNMENT OF THE PROVINCE OF ONTARIO

These proposals are discussed under the following headings:

- I Dominion-Provincial Economic Board
- II Dominion-Provincial Co-ordinating Committee
- III (a) Personal Income and Corporation Taxes and Succession Duties
- (b) The National Adjustment Fund
- IV Taxes to be Left to the Provinces Exclusively
- V Foreign Exchange
- VI Public Investment
- VII Welfare
- VIII Health
- IX Right of Set-off

While the proposals are set out under the separate headings, they constitute one integrated plan and should be read together in that light.

Section I

Dominion-Provincial Economic Board

The Government of Ontario recommends the formation of a Dominion-Provincial Economic Board which would be composed of technical advisers to be appointed by the Dominion and each of the provincial governments. It should be a permanent body which would assemble and digest all national, provincial, municipal and international statistics bearing on the problems of the Dominion and the provinces.

The Economic Board would advise regarding uniform tax legislation and examine jurisdictional tax problems. It would promote closer collaboration between Dominion and provincial administration. It would disseminate information to all governments on taxes, economic trends, inter-governmental affairs and investment policies.

This Board could include representatives of the Statistical Bureaux of the Dominion and each of the provinces, and of the Research Department of the Bank of Canada.

Section II

Dominion-Provincial Co-ordinating Committee

From the present Dominion-Provincial Conference should be formed a Co-ordinating Committee, composed of the Prime Minister of Canada and the premiers of the various provinces or their nominees. The duties of this Co-ordinating Committee would be:

- (a) to continue discussions with a view to arriving at a solution of many outstanding matters which cannot be determined at this Conference and which obviously cannot be dealt with in a limited period;
- (b) to determine from the information supplied by the Dominion-Provincial Economic Board the amount of the Adjustment Grants, as outlined in Section III, (b), of these proposals entitled, "The National Adjustment Fund";
- (c) from information supplied by the Dominion-Provincial Economic Board to recommend the timing of public investment projects, outlined in Section VI of these proposals entitled, "Public Investment";
- (d) to act as a continuing channel of information between all the governments of Canada.

Success in the development of our country, the attainment of high levels of employment and increased welfare and security are dependent upon the co-operation of our people and all our governments. In Canada, the Government of the Dominion and the governments of the provinces both have functions prescribed by the constitution. Conditions, however, arise from time to time which require change. A co-operative spirit is needed in both the Dominion and the provincial governments. We have had several Dominion-Provincial Conferences since Confederation. One lesson which we have learned from them is that co-operation can best be brought about by a thorough understanding of the problems which confront us. These problems are many. Their solution will contribute to the efficiency of government, to the avoidance of duplication and overlapping and the achievement of uniformity.

It is plain that the present Conference cannot deal finally with many of the matters which are properly subjects for Dominion-Provincial consideration and agreement. Many examples could be given of the need for continuing study. A case in point is the subject of *Agriculture* referred to in the "Proposals of the Government of Canada". Concerning the expansion of agricultural services, the "Proposals" read:

"The Dominion is anxious to work out the best possible basis of co-operation with the provincial governments in order to eliminate unnecessary duplication and to achieve a co-ordinated increase in activities where expansion is desirable."¹

Under the heading of *Marketing* there are these words:

"It is apparent that the Dominion and the provincial governments are agreed as to the need for some action which will clarify the control and direction of activities in this field. Under these circumstances, it would appear that the Conference should give some consideration to this matter with a view to achieving the desired control."²

A similar suggestion is made under the heading of *Conservation Programme*:

"It is proposed that the Dominion and provincial governments work out appropriate arrangements for the extension of agricultural conservation and development activities across the Dominion."³

Many other examples arising in connection with labour relations, public investment policy, social security and other matters could be

¹*Proposals of the Government of Canada*, p. 18.

²*Ibid.*, p. 18.

³*Ibid.*, p. 18.

given. The solution of these problems depends as much on a genuine co-operative spirit as upon the means available for getting things done.

Section III

(a) Personal Income and Corporation Taxes and Succession Duties

We submit for the consideration of the Dominion and the other provincial governments an alternative plan to deal with corporation and personal income taxes and succession duties and subsidies. In brief the plan is:

1. The Dominion shall levy corporation and personal income taxes under its own acts, but not succession duties.

2. The provinces shall levy corporation and personal income taxes at their own rates, but under acts uniform with the Dominion.

3. The provinces shall levy succession duties under uniform acts.

4. The Dominion shall collect corporation and personal income taxes as agent of the provinces; the provinces shall collect succession duties.

5. Ten per cent of the provincial corporation taxes, personal income taxes and succession duties shall be placed in a fund, to be known as The National Adjustment Fund, for division among the provinces in the form of Provincial Adjustment Grants on the basis of fiscal-need to be determined by the Dominion-Provincial Coordinating Committee.

6. A re-adjustment of provincial corporation income tax revenue would be provided so that the advantage of head office location in some provinces would be shared by all provinces.

7. The Dominion would continue to pay subsidies as provided by the B.N.A. Act, 1867, and amendments.

This plan preserves all the advantages of single corporation and personal income tax collection as proposed by the Dominion Government, leaves the provinces with the power to levy income taxes in conjunction with the Dominion, and reserves succession duties to the provinces.

A tax plan affording such eminent advantages could not, however, be carried through without a measure of compromise on the part of the provinces. Each province would have its own tax act and would exercise control over its own rates of taxation. The several provinces, however, would be required to adopt uniform corporation and personal income tax acts modelled on the Dominion

act, and to authorize collections to be made by the Department of National Revenue. Provincial succession duty acts would also be uniform.

Prior to the 1942 tax agreements, the provinces of Ontario, Quebec, Manitoba and Prince Edward Island had personal income tax acts in force based on the Dominion Income War Tax Act, and the taxpayer made but one return to the Department of National Revenue. This method of centralized collection of provincial personal income taxes with separate uniform acts and different rates was tested successfully. We propose therefore that all provinces re-establish personal income taxes on this basis.

The Ontario Government's proposal that there be uniform succession duty acts in all provinces would eliminate certain anomalies and injustices which have resulted from multiple taxation imposed under two or more different succession duty acts. Even under a uniform act, the application of succession duties must take into account variations in the local laws of each province relating to property and personal rights under land, inheritance, marital and other laws. Moreover, over the course of several decades the provincial governments have developed highly experienced and efficient administrative staffs for the collection of succession duties. The Government of Ontario, therefore, considers it desirable that the collection of succession duties continue to be carried out by the ministers and administrative personnel of the provinces.

The succession duty plan proposed by Ontario will have all the advantages derived from simplification. A single return would be made to the government of the province in which the deceased was domiciled. The succession duty administrative department of such province would assess the entire estate regardless of the situs of any property, and in doing so would apply the rates of any other province to property situated in such other province. It would collect the entire duty for all provinces concerned and pay to each province the amount of the duty collected on its behalf. Where the domicile is not in any province of Canada, the province to which the estate representatives elect to apply for assessment of duty and transfer of assets would assess, on behalf of all provinces concerned, the entire duty on property situated in that or any other province.

The same centralized administrative procedure used for the collection of provincial personal income taxes would be employed for the collection of provincial corporation taxes. Corporations carrying on business in more than one province would be relieved of the trouble and expense of making computations for several provincial returns. A corporation doing business in nine provinces would only be called upon to familiarize itself with one provincial tax act, for all would be the same. It would file only one return and make only

one tax payment. A corporation would report its sales in the several provinces of Canada and in foreign countries, the sales being reported on the basis of the residence of the purchaser. In computing its tax, the corporation would divide its net taxable income in proportion to the reported sales in the various provinces and apply the rate of tax levied by such provincial governments to the amount of the net taxable income apportioned to each province. The company's tax payment would be made to the Department of National Revenue, and the revenue would be credited to the accounts of the respective provinces. While corporations would be called upon to record their sales by provinces, most companies which carry on business in more than one province already maintain such records and this would not add to their work. The complaint of most national corporations has been that there were nine returns, nine different sets of calculations, and nine payments. Under this proposal there would be only one set of calculations and only one return. Banks, railways, express, telegraph and insurance companies do not come under this plan, but they would file only one provincial return with the central collecting agency, allocating the base upon which the tax was levied as they have done formerly under provincial tax acts in force prior to the 1942 tax suspension agreements.

It has often been charged that certain tax benefits accrued to Ontario and Quebec owing to the relatively large number of corporations which found it advantageous to locate their head offices in these provinces. Corporations having their head office in Ontario and carrying on business in another province have always been subject to taxation by that province on the business they carried on there. Ontario has allowed such companies to deduct from the taxes otherwise payable to Ontario the amount of taxes paid to other provincial governments, provided that the deduction from the Ontario tax should not be greater than if computed at Ontario's rates.

Prior to the 1942 tax agreements, the Province of Ontario taxed the net income from foreign sales of corporations having their head offices in Ontario. Ontario did not tax the net income derived from export sales of any company whose head office was situated in Manitoba or any other province. Similarly, Manitoba taxed the net earnings from foreign sales of corporations having their head offices in Manitoba, but not the net income from export sales of corporations with head offices situated in other provinces. This provincial law of corporation taxation meant that Ontario and Quebec, and some other provinces in lesser degree, enjoyed a relatively larger corporation tax source than other provinces owing to the concentration of head offices. Under the plan Ontario proposes for the centralized collection of corporation taxation with uniform, separate acts and different rates, if desired, all provinces share in the taxation of corporation net income, whether earned on domestic or foreign sales, according to the

sales of the company in the Canadian provinces. This plan should go a long way in solving a difficult problem which has been the source of much criticism in the past.

(b) The National Adjustment Fund

It is further recommended that 10% of the revenue of each provincial government from personal income taxation, corporation taxation and succession duties be placed in a pool to be known as The National Adjustment Fund, and, to the extent required, the pooled revenue would be apportioned among those provinces which are unable to provide a national minimum of social services. The amount of the Provincial Adjustment Grants would be determined by the Dominion-Provincial Co-ordinating Committee upon the recommendation of the Dominion-Provincial Economic Board. Grants would be made only on the basis of need, and they would be periodically reviewed and adjusted in conformity with the changing requirements of the several provinces.

This proposal would in no way interfere with the direct expenditures of the Dominion Government, but it is considered that the pooling of provincial tax revenue should make it unnecessary for the Dominion Government to grant fiscal-need subsidies to the provinces. As provincial revenues from personal income and corporation taxes and succession duties are adjusted to full scale post-war production, this National Adjustment Fund contributed by the provincial governments should amount to an annual contribution of at least \$20 million. This figure compares very favourably with the Dominion Government's additional special grants of \$5.5 million paid to six provinces before the tax agreements came into force and to the \$9.0 million which is now paid under the tax agreements to certain provinces under their debt option clauses and loss of revenue provisions and in fiscal-need subsidies. In 1940 the Royal Commission on Dominion-Provincial Relations recommended national adjustment grants of \$14.9 million to six provinces. When it is remembered that all those provinces, except Manitoba, now receive amounts payable by way of Family Allowances in excess of the amount contributed in taxes to a greater extent than the benefits recommended by the Commission in 1940, it will be seen that this fund should be more than adequate to provide fiscal-need subsidies having regard to the recommendations of the Dominion-Provincial Commission as recently as 1940.

If Ontario's plan be adopted in principle and its details worked out with the Dominion and other provinces, certain modifications may emerge. It is believed, however, that it is along the lines suggested here that a solution to our Dominion-Provincial tax adjustment problems will be found.

The above plan is conditional upon acceptance by all the provinces. It contemplates the provinces paying their fair share of the cost of the centralized collection of corporation and personal income taxes.

Section IV

Taxes to be Left to the Provinces Exclusively

Although ministers in past Dominion Governments have admitted that personal income and corporation taxes and succession duties belong to the provinces, we believe that the first two should be shared by both the Dominion and the provinces. As already stated, the Ontario Government submits, however, that the Dominion Government should vacate succession duties and certain other direct taxation fields. The Dominion Government has access to all fields of taxation, direct and indirect, and also enjoys exclusive jurisdiction over banks, banking and the issuing of money. The provinces are restricted to direct taxation and with their wide duties and functions must have revenues which are adequate to enable them to discharge their full constitutional responsibilities. The Dominion Government therefore must leave certain of the direct taxation fields exclusively for the provinces if they are to have the taxation sources with which to function effectively. This point of view has been widely acknowledged and indeed asserted by both Dominion and provincial leaders in the past. When the Dominion Income War Tax Act was introduced in 1917, the then Minister of Finance emphasized that the measure was being introduced only because of "manifest public necessity" and acknowledged that the Dominion Government was invading a field "to which the provinces are solely confined for the raising of their revenue." In fact he went so far as to say that this Dominion taxation was a temporary measure only. From Confederation onwards a tacit understanding existed to the effect that direct taxation should be reserved for the provinces.

At this time it is not sufficient to deal only with the three taxes referred to in Section III. In addition, ample direct taxation fields must now be reserved for the provinces. The Dominion Government should vacate the following fields: succession duty, gasoline tax, amusement tax, race track pari-mutuel tax, security transfer tax, electricity tax; and effectively recognize priority of provincial taxation on mining and logging operations. Moreover, the Dominion Government should refrain from invading further direct taxation fields now or in the future.

During the recent war, the Dominion Government introduced succession duties for the first time, although the Government of Ontario had enjoyed the exclusive occupation of this field continuously since 1892. As succession duties bear a direct relationship

to "property and civil rights", they have always been regarded as a form of taxation reserved for the provinces. In many cases the creation of large estates, which are the major source of the Province of Ontario's succession duty revenue, parallels the depletion or using-up of natural resources. As has been pointed out, the conservation, replacement and development of our natural resources is a provincial responsibility. Succession duties enable the provinces to recoup part of the expenditures of the provincial governments on the development of their natural resources and to provide funds for protecting and conserving those resources and opening up new areas for development.

The Dominion Government also imposed taxes for the first time on gasoline, amusements and race tracks. The Federal Government's tax on gasoline is particularly open to objection in view of the large expenditure and investment by the provinces for highways and roads, and the dependence of the provinces on revenue from the gasoline tax to finance highway costs. The Dominion's taxes on security transfer, amusements and race tracks are considered by Ontario to be an invasion of the provincial tax field and to have contributed to unnecessary duplication in the Canadian tax system. The Dominion Government should discontinue these forms of taxation.

The Province of Ontario also takes exception to the Federal Government's tax on electrical energy consumed by residential customers. By advancing loans to the Hydro-Electric Power Commission and by subsidizing rural power lines, the Government of Ontario since 1909 has contributed materially to bringing the benefits of low cost electric power to the consumers of Ontario. The effect of the Federal Government's tax on electrical energy is to hamper the Province in these efforts to obtain wide distribution and high consumption at low cost. The electricity tax should be discontinued by the Dominion Government.

Finally, the provinces have long contended that provincial taxes on mining and logging operations, even when levied on profits, are essentially a royalty, and that such taxes should be deductible before the calculation of the Dominion's corporation tax. The Government of Canada has agreed in principle to this submission and the Government of Ontario approves.

Summarizing these proposals, the Government of Ontario submits that the Dominion should vacate the following tax fields:

- (a) Succession duties;
- (b) Gasoline;
- (c) Amusement;
- (d) Race track pari-mutuel;
- (e) Security transfers;
- (f) Electricity;

and further refrain from invading additional direct taxation fields now or in the future, and effectively recognize priority of provincial taxation on mining and logging operations.

Section V

Foreign Exchange

The Foreign Exchange Control Board of Canada was created by an order of the Minister of Finance on September 15th, 1939, authorized under the provisions of the War Measures Act. The Board has power to fix the rates at which foreign exchange, in such currencies as the Board may designate, can be purchased or sold. The buying rate of 11% and the selling rate of 10% established on United States currency on September 16th, 1939, have remained constant during the war.

In these circumstances, it is urged that the Dominion Government make available to provincial and municipal governments the foreign exchange required to meet their external obligations at parity of exchange. To obtain this agreement, the provinces and municipalities should accept a ruling whereby future provincial and municipal borrowing would be restricted to Canadian currency.

Section VI

Public Investment

At the first meeting of this Conference, the Ontario Government expressed its belief that the highest possible measure of co-operation should be established between the Dominion and Provincial Governments in the development of their resources and the maintenance of all types of production. It approved of the idea of holding back public construction and public investment during the period when private investment and private production can provide the opportunities for employment which assure gainful occupation to our people. Such timing of public investment should be based upon an analysis of all the economic and other factors which determine the anticipated course of the business cycle. It must be presumed that every government would find the figures equally convincing at the same time.

Having regard to what has already been said about the centralization of authority, it is submitted that this situation can best be met by each of the governments acting independently on carefully prepared plans with the advice and recommendation of the Dominion-Provincial Economic Board and the Co-ordinating Committee.

It need hardly be said that the Conference can only proceed on the assumption that each government will be actuated in its decision

by an equally impartial approach to the solution of our combined problems. That being so, it would follow that if the reports of the above bodies indicate the desirability of a particular course at a particular time with sufficient clarity, then each government would act similarly upon their findings.

The timing of public works and other activities calling for public investment could be brought about just as effectively upon the advice of the above Board and Committee without delegating to the Dominion Government the responsibility for extremely important decisions within the sphere of exclusive provincial jurisdiction. Decentralization in dealing with these problems will be a very great advantage because the scope of the undertakings will make prompt decisions in regard to each project much easier if the decisions remain in the hands of the experts of the branches of the provincial governments which have been dealing with these matters for years.

It seems obvious that decisions as to when, where and to what extent activities should proceed at a given time in the forests, in the mines, in the construction of highways, in conservation of soil, and in practically every aspect of production can be made very much better by those who are constantly in touch with these very subjects. Without the building up of a wholly unnecessary duplication of staff in Ottawa, there simply would not be the official experience available to make appropriate decisions in these matters.

It would seem desirable that an adjustable amount be contributed by the Dominion Government to work of this kind between a minimum and maximum figure depending upon the actual need instead of using an arbitrary figure in each case. There would seem to be no reason why the Dominion Government should make as high a grant to some revenue-producing or self-liquidating projects as to other projects which would provide no prospect of direct financial return. The decision as to the amount, within fixed proportions, could be settled by the Economic Board and the Co-ordinating Committee.

Section VII

Welfare

The question of responsibility for public welfare services is brought under review by the broad social security legislation the Dominion Government has passed during the war. The Unemployment Insurance Act, the Family Allowances Act, and an Act Creating a Department of National Health and Welfare, make it necessary to decide upon the clear allocation of responsibility for social security measures. The purpose of these measures is two-fold: to provide an element of security for the beneficiary, and to increase the stability of group income and employment. A social security program operates

as an income levelling agency. Since the Dominion Government implemented its family allowance legislation, the rather unusual situation has arisen that the Dominion Government pays family allowances and some of the provinces pay mothers' allowances. It is submitted that the present provincial services, including mothers' allowances, children's aid, public assistance for unemployables and other approved provincial public welfare services, should be financed by the Dominion Government to the extent of 75 per cent of the cost, the provinces to bear the remaining 25 per cent and the cost of administration. A vital factor to be considered in the re-alignment of welfare services between the Dominion and the provinces is that they require considerable local supervision and care. For that reason, the administration of such services would properly come under the jurisdiction of the provinces.

The Dominion's proposals for old age pensions fall into two divisions. First, as part of its general proposals, the Dominion Government proposes that it finance and administer the payment of old age pensions of \$30 per month regardless of means to all men and women aged 70 and over in Canada. Second, it proposes that the provincial governments administer the payment of old age assistance (or pensions) of \$30 or less per month to persons aged 65 to 69 who are in necessitous circumstances. The payments would be made under Dominion-Provincial agreements broadly similar to those now in existence for old age pensions, but with certain changes designed to liberalize conditions of payments. The provinces would bear 50 per cent of the cost and the Dominion the remaining 50 per cent.

The Province of Ontario agrees that old age pensions should be extended to all citizens over 70 years of age without a means test, but disagrees with joint Dominion-Provincial contributions to pensioners under the age of 70 with a means test.

It is recommended that old age pensions should be paid to all citizens over 65 without a means test. It is recognized, however, that heavy expenditures are involved in this proposal, and it is therefore suggested that the extension to cover all persons over the age of 65 should be made as soon as the Dominion finds that it has the necessary financial resources.

The Ontario Government contends that the Dominion Government should assume the full financial responsibility for public assistance of the employable unemployed. The Dominion's printed "Proposals" state:

"As a part of the general arrangement with the provincial governments, the Dominion Government now proposes to establish a practicable and comprehensive system of assistance to able-bodied unemployed persons as soon as

possible, rather than waiting until the need for it actually arises."¹

There are, however, important qualifications to the Dominion's acceptance of this financial responsibility. For instance, the Dominion's brief contains these statements:

- (a) "The plan proposes acceptance of Dominion responsibility for unemployed employables, and provincial and local responsibility for unemployables, but it is recognized that this division presents problems of definition in some individual cases, and that in operating practice the only final test of employability is ability to get and hold a job."²
- (b) "A person who ceases to be employable would not be eligible for unemployment assistance. In the absence of more specific evidence of unemployability, a person who has remained on assistance for a period of two years, without being able to obtain or keep employment other than of a casual nature, would be declared ineligible and transferred to the responsibility of the provincial government and municipality."³

Under these definitions a large proportion of the cost of unemployment assistance to persons actually employable would fall on the provinces and municipalities.

The Government of Ontario submits that public assistance for unemployed employables should be a Dominion responsibility. In the case of unemployables, the Province would bear 25 per cent of the cost together with the cost of administration, the balance being paid by the Dominion Government.

Section VIII

Health

The Dominion proposals under this heading in regard to benefits to be extended, the costs involved and the present limitations of hospital and personnel facilities of the provinces have been given careful consideration. It has become obvious from an examination of the proposals themselves and particularly from the deliberations of the Economic Committee that this subject requires a great deal of further study and preparation of essential facts. The Ontario Government recommends that this should be undertaken at once. This whole question could well be one of the first subjects referred to the Dominion-Provincial Co-ordinating Committee.

¹*Proposals of the Government of Canada*, p. 42.

²*Ibid.*, p. 43.

³*Ibid.*, p. 44.

While the Dominion Government has suggested that it intends to finance its contribution to health insurance by a social security tax, it proposes that the provinces finance their share of the cost of health insurance by the collection of a fee or tax to be paid by every person over sixteen years of age. This, as has already been pointed out, is in effect a poll tax which is not related to earning capacity or to whether or not the taxpayer is employed. The provinces would experience the utmost difficulty in underwriting health insurance services financed by such an unsatisfactory form of taxation.

It is also apparent that the Dominion's program is dependent upon the hospitals and trained medical, dental and nursing personnel available in the provinces. In Ontario, present facilities are taxed to capacity. That is doubtless true elsewhere. Before embarking on so extensive and costly a health program a thorough study should be made. Sound foundations in the form of adequate hospital facilities and trained personnel are essential. This will require time and very large expenditures on the part of the provinces. The Province of Ontario has already taken action on the above and is prepared to collaborate with the other provinces and the Dominion in the furthering of these objects.

Section IX

Right of Set-off

The Ontario Government recommends that in any agreement made with the Dominion Government there should be no right of set-off of debts owing to the Government of Canada by the provincial governments against any payments to be made by the Dominion Government to the provinces.

Conclusion

There are many important problems facing the people of Canada to-day and many new ones which will arise in the future. They can all be faced with confidence if there is effective co-operation between the Dominion and provincial governments. But there is one particular problem which is primarily that of the Dominion Government and which will have a profound effect upon the level of employment throughout every part of Canada. Experience in the past has shown that our national income moves in very close conformity with the dollar value of our export trade. In pre-war years, Canada's two best customers, the United Kingdom and the United States, purchased nearly eighty per cent of our total exports. A high level of employment in Canada depends directly upon the extent to which we can maintain these markets and, if possible, expand them. All Canadians have reason for great concern about the present restrictions on exports

to both those markets, particularly to the United Kingdom. It is an essential part of any broad national plan for the maintenance of employment that the Dominion Government should make every effort to stimulate our trade in export markets wherever they may be found. On the part of the provincial governments and our people generally, every effort should be made to maintain steady production and improve quality. A whole-hearted measure of co-operation is needed from all governments and all the people of Canada to meet vigorous competition from all nations for export business throughout the world.

As was said at the outset, these submissions have been presented, with the acceptance of the basic principle, that while each provincial government owes its primary responsibility to the people of its own province, the welfare and prosperity of the people of all provinces depend upon the strength and vigour of the whole nation. With a spirit of co-operation, understanding, and mutual good-will, this Conference can lay the foundation for Canada's greatest period of expansion and prosperity, without many fundamental changes in the constitutional structure upon which has been built a strong and confident nation.

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